



Volume XIII

PRIMER

Indiana State Teachers' Retirement Fund
For active and retired members
Winter Issue - March 2003



Number 2



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TAX TIPS FOR EDUCATORS

For tax years 2002 and 2003 only, the IRS is allowing educators to take a special tax break. For these tax years, \$250 of classroom or related expenses may be deducted from income without having to itemize! The IRS defines an educator as a K-12 teacher, instructor, counselor, principal or aide, who worked at least 900 hours during the calendar year.

Good tax preparation for educators has always included saving receipts for out-of-pocket purchases of classroom items. When a teacher saves receipts for classroom items, even for little items such as a decoration for the bulletin board, a packet of index cards or the rental of a video to show students, they are often amazed at just how much they spent out of personal funds.

The IRS has allowed these items to be deducted, **provided** the educator files a "long form" and itemizes using Schedule A. The problem has been that "miscellaneous" business expenses must exceed 2% of income before they can be used with other itemized deductions, such as mortgage interest to reduce income. For example, a teacher with \$600 of classroom expense, who makes \$40,000 a year, could not deduct any expense since \$600 does not exceed 2% of income (\$40,000 X .02= \$800). Obviously, keeping track of expenses, while always recommended, often becomes an exercise in futility.

For tax years 2002 and 2003, the amount of expenses, up to a maximum of \$250, is reported as an adjustment to income on line 23 of Form 1040 or line 16 of Form 1040A. As an adjustment, taxable income is immediately reduced, which not only reduces the amount of Federal tax paid, but also the amount of State tax paid.

This tax break affects the returns you are preparing now (2002) and the return you will prepare after the end of this year (2003). Be sure to keep your receipts to justify the amount of the deduction taken. Be sure to read the instructions for Forms 1040 or 1040A or consult your tax advisor.

Funding Issues

As the Indiana General Assembly meets to solve the funding issues facing our State, careful consideration must be given to some of the following facts.

- By 2011, one-half of the active teachers will be replaced.
- In 2019, the retired population of teachers will peak.
- Indiana will be required to payout \$1.4 billion each year to retired teachers by 2027.
- The current actuarial unfunded liability for the Indiana Teachers' Retirement Fund is \$8.488 billion.
- The current estimated annual payout for 2003 teacher pensions is \$470.4 million.

Information from 2002 Report of the Annual Actuarial Valuation

Recognizing and Preventing Identity Theft

Rarely heard of a decade ago, identity theft has become a serious concern for anyone who has a social security number. Knowing how to limit the risk of being a victim could save you time, trouble and a lot of money.

Identity theft occurs when an individual uses another person's name, birthdate, social security number, credit card number or other banking or personal data as his or her own. The "stolen" information is then used to obtain employment, open credit card accounts, take out loans, make purchases, obtain utility service and such, all with the purpose of the "thief" getting the goods and services and the victim paying the bill.

According to Federal Trade Commission reports, more than 500,000 Americans will have their identities stolen in the year 2002. 42% of the top ten consumer complaints reported to the FTC were related to identity theft. During 2001, 1 in 20 consumers was a victim of credit card fraud and 1 in 50 had their identities stolen.

While nothing can prevent you from being targeted, you can reduce your risk of being victimized by forming new habits with your personal paperwork.

Social Security Card...

- Be protective of your social security number. Memorize it and keep the card in your lockbox at home or your bank safety deposit box.
- Be cautious about giving your social security number or other personal information out over the phone, on line or in the mail. This is particularly important when someone has contacted you. You are safer when YOU initiate the contact.
- Do not have your social security number preprinted on your checks.
- Ask to use another identifier rather than your social security number. Choose to identify yourself by account number if possible.

Credit Cards and Bank Accounts...

- Keep the credit cards you carry with you down to a minimum. In fact, carry them separately from your wallet. Close any credit card accounts you are not using.
- Pay attention to the statements you receive. Are there charges you don't recognize? Have withdrawals been made or checks written that you don't recall or of which you do not have a record? Thieves count on you looking at the amount due or balance figures without really paying attention to the individual line items.
- If you didn't receive a statement, call the bank or charge card company. Identity thieves have been known to change the address on an account to delay the time before the fraudulent withdrawals or charges are noticed.

In General...

Invest in a shredder. Office supply stores sell them for about 20 to 30 dollars. Shred any statement, bill, credit card offer, receipt, or form that you are not going to keep. Remember to shred those pre-approved credit card applications you receive in the mail.

Take outgoing mail to the post office or deposit it in a postal box rather than putting it in your personal mailbox. Try to retrieve your mail from your personal mailbox in a timely manner. Indiana news sources have often reported stories of identity thieves scanning personal mailboxes for information or of checks being taken out of envelopes and "washed" in order that the payee may be changed.

Check your credit report annually at all three credit reporting companies. Review the reports for accuracy. Consumer Reports, in its July 2000 issue, cited a survey which indicated over 50% of the credit reports studied were inaccurate. An annual review will not only help you determine if you have been a victim of identity theft, it will also allow you to clean up any inaccuracies found. Since, it takes generally 60 to 90 days to clear up a problem, you will want to deal with any found immediately rather than wait until you are ready to buy a new car or get a new mortgage.

Did you open the accounts listed? Are the closed accounts noted as such? Do you recognize and remember dealing with the sources listed as making inquiries about your credit? If a specific company is noted as making fraudulent inquiries, you will want to notify the Indiana Attorney General's Consumer Complaint Division (800-382-5516).

What if You Become a Victim...

If you suspect you have been a victim of identity theft, **immediately** notify the three credit bureaus and request that a fraud alert be placed on your record. Close the fraudulent accounts. File a police report and notify the FTC (800-ID THEFT).

Credit Reporting Bureaus

Equifax
P O Box 740241
Atlanta, GA 30374-0241

Request Credit Report

800-685-1111

To Report Fraud

800-525-6285

Experian (formerly TRW)
P O Box 2104
Allen, TX 75013

888-EXPERIAN

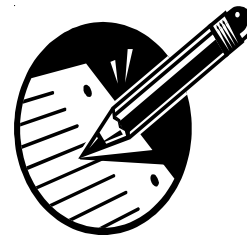
888-EXPERIAN

Trans Union
P O Box 390
Springfield, PA 19064

800-916-8800

800-680-7289

NEWLAND'S NOTES



Bob Newland has been with the Fund for 18 years. He began as the Investment Coordinator and is currently the Deputy Director for Investments. He has an undergraduate degree in Political Science from Indiana University, and an MPA with a Finance concentration from American University. He also has certifications in financial asset management as well as employee benefits.

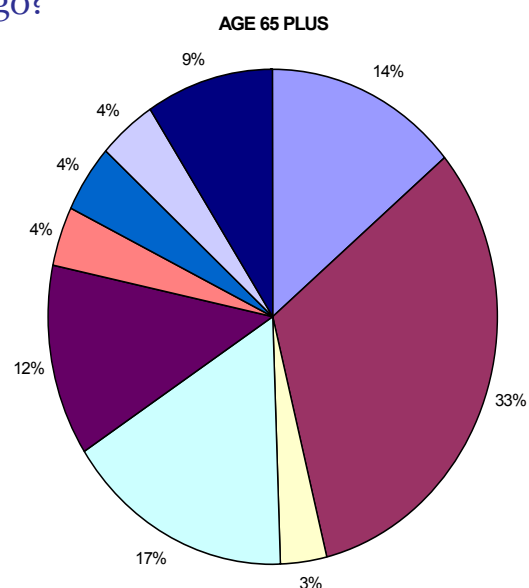
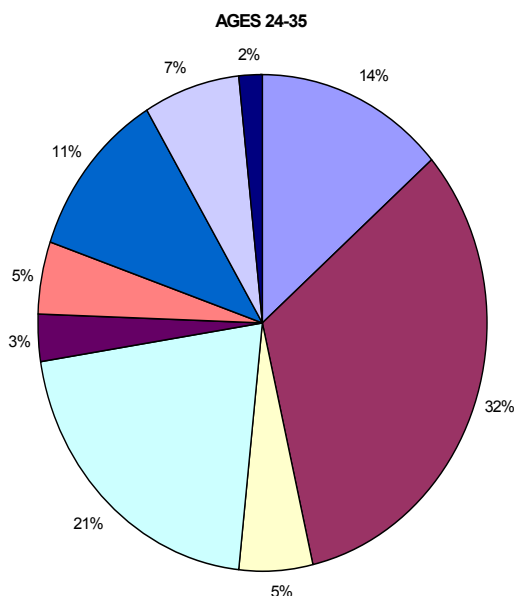
In the last Primer, I wrote about fees and how they affect the total return that an investor makes on an investment. One of those fees, custody services, may be small, but it can have a great impact on an investment department's operations.

A custody agent (or custodian) serves many purposes. Traditionally, the custodian acts as the central depository and nominee holder of the assets of the Fund domestically and internationally, and as transaction clearing agent for those assets. It provides safekeeping of the plan's securities (physically or electronically) in a location and manner satisfactory to the Fund, with adequate controls. It also performs regular reconciliations with investment managers, monitors foreign tax withholdings, and helps with corporate actions such as proxies and tender offers. Finally, it provides the identification and timely collection of all receipts or income which become due and payable on the Fund's assets.

Because of its position as a central clearinghouse, it can provide significant additional services. It can manage the daily cash that results from the receipt of dividends and interest, as well as an investment manager's residual cash. It can provide foreign exchange services for international portfolios. It can provide performance measurement services, helping us to assess the reasons behind an investment manager's total return: did it come from being overweight in a particular economic sector; was it the specific securities that the manager held; did currency play a part? Since the custodian sees a manager's trade immediately, it is in an excellent position to help the Fund with compliance issues: is this security allowed in a portfolio; is the manager buying more of a particular security than allowed? The custodian is also strategically placed to help the Fund gain incremental income by lending our securities. Finally, because it has access to literally every piece of information in our investment operation, it can help the Fund look at the composite picture: how much value is at risk in the entire Fund; is the asset allocation in line; is it time to move money around to bring the allocation back into line?

A good custodian acts as an extension of staff. It can provide an investment operation with immeasurable assistance for a measurable result.

Where does my money go?



CHECKLIST FOR RETIREMENT

- ☐ Obtain an estimate by visiting our website at www.in.gov/trf. Otherwise you may complete an estimate information form and send it into the Fund.
- ☐ Notify your school corporation of your anticipated termination date. Upon notification from your school corporation, an application will be mailed directly to you or you may obtain an application from our website. Most school districts have set a retirement notification date, which can be as short as one month or as long as 18 months prior to your anticipated last day at work. Failure to adhere to a school corporation's notification policy may affect your severance.
- ☐ Read and print the "Retiring Member's Guidebook" located on the TRF website. If you do not have Internet capabilities, please contact the Fund office to have one sent to you.
- ☐ Inquire about all of your benefit options. Check the website or call the TRF office to obtain information regarding a retirement workshop in your area. Schedule a telephone appointment with a benefits counselor or arrange a face-to-face interview.
- ☐ Complete all portions of the retirement application. Incomplete forms will be returned to you via U.S. Mail, which may delay the processing of your application.
 - Choose an alternative for handling your annuity savings account. (See the article "To Roll or Not to Roll" on page 5).
 - Determine how you want your money handled in the event of your death by selecting the appropriate benefit option listed on your application.
 - Contact your accountant and/or financial planner to determine the appropriate amount of federal and state withholding information.
 - Sign the application and have it notarized. Have your bank complete the direct deposit information. Double-check the form for accuracy.
- ☐ Give Part II of the retirement application to the benefits department of your school corporation. The school will assume responsibility for mailing Part II to TRF. Most Part II's are not completed by payroll until after the school year has ended. Your full retirement benefit and any lump sum distribution will only be processed when both parts have been received by the Fund. Allow 60 days after your retirement date for your first (85% or full) check to arrive.
- ☐ Mail Part I of the retirement application, along with a copy of your SSA estimate, if necessary, and a photocopy of a Fund-approved birth certificate. Also, if necessary, provide a copy of the co-survivor's birth certificate and send to:
Indiana State Teachers' Retirement Fund
150 W. Market Street, Suite 300
Indianapolis, IN 46204
- ☐ Plan to enjoy your future endeavors.

PAYING IT SAFE

There is no safer way to have your retirement benefits paid to you than direct deposit. By using direct deposit, TRF sends an electronic file to your bank, crediting your account with the dollars due. The file is sent on the day before the check is due, so you have access to your money on the day it is due. Direct deposit eliminates the chance of lost or stolen checks and there are no more stop payment and replacement hassles, which result with a missing paper check.

Using direct deposit eliminates the need to go to the bank when the check arrives or to arrange for someone to take it to the bank for you when you vacation. Forwarding the mail to your vacation home adds several days to being able to access the cash. Another plus is that your money can start earning interest earlier with direct deposit, and there is no waiting for the check to clear, which may be required by some banks.

The Indiana State Teachers' Retirement Fund (TRF) has made the process particularly quick and easy, by making your deposit verification slip available to you on line (www.in.gov/trf). Sign up is simple, print a copy of the direct deposit form off the website and mail it to the TRF office. A form may be also obtained by calling Member Services at 888-286-3544.

Still not convinced? Consider these facts by Direct Deposit www.directdeposit.org and Direct Payment www.directpayment.org. More than 80% of the large companies in the US offer direct deposit. Ninety-seven percent of those who use direct deposit are satisfied with it. There is a 20% greater chance of a problem with a paper check than with direct deposit. It is safe, fast, confidential and convenient.

To Roll or Not to Roll....

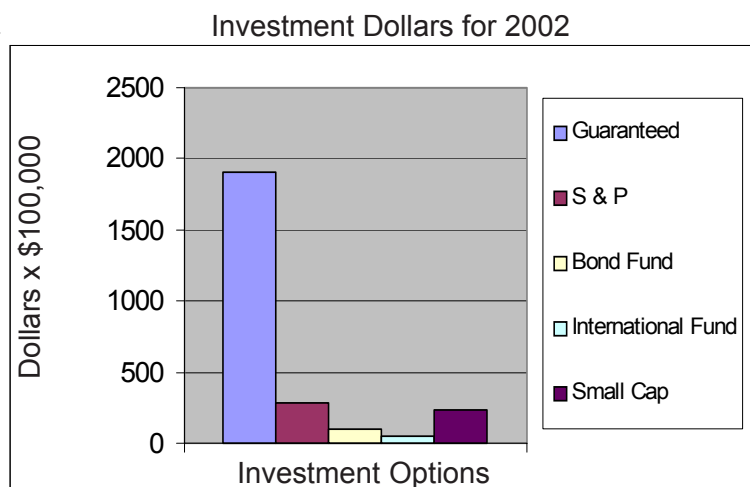
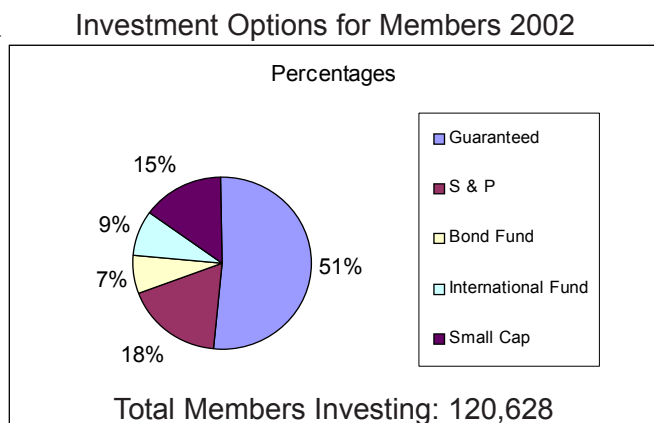
That is the question faced by every retiring member. Which is better, to keep your annuity dollars in the Fund or to roll them over to a bank, broker, IRA or qualified plan? To review, your retirement benefit from the Fund is made up of two parts...your state pension and your annuity. Your quarterly statement reflects the balance in the annuity portion only. While the pension portion can only be paid as a monthly benefit, there are four alternatives available for handling your annuity dollars.

Alternatives I and III permit you to combine your annuity dollars with your state pension in order to receive higher monthly benefit checks. You may choose whether to put the non-taxable portion in with the pension (Alternative I) or to have the non-taxable dollars paid directly to you (Alternative III). These are attractive options when you consider not only are you getting the higher monthly payments, you will continue to receive the higher payment even when the annuity portion of each check has long since exhausted your annuity balance. In addition, your monthly benefit amount is actuarially calculated as if your annuity dollars were earning 7.25%.

Alternative II permits you to roll the taxable amount of your annuity to another qualified plan, be it with a brokerage firm, a bank (IRA) or your 403b (tax sheltered annuity plan). You will continue to receive the monthly state pension; however, your annuity dollars are outside of the Fund and are not included in your payments.

Alternative IV allows you to keep your annuity dollars invested with the Fund with no withdrawal charges, commissions or fees. You may keep your non-taxable annuity dollars invested or have them paid directly to you. Dollars invested in the guaranteed fund will earn 7% interest through June 30, 2003. The Board of Trustees will announce next fiscal year's interest rate prior to that date. Annuity dollars invested in the S&P, the Bond Fund, International Fund, and Small Cap will reflect their respective market results. You may change your investment options quarterly. Best of all, you choose when to move the dollars to another alternative or out of the Fund. For example, when fixed rates outside of the fund are better than the Fund's interest rate, you may want to consider a change. Or suppose your spouse plans to retire in 2005, since his income will be reduced at that time, you may decide to change from Alternative IV to Alternative I, so your monthly benefit will increase.

Important Note: You cannot leave your money invested after you turn age 70½. It is mandatory to begin payments at 70½ whether you are invested inside or outside of the Fund.



The key to deciding if an annuity rollover is the best approach for you is to ask questions:

- How long do I have to keep my money invested before I can withdraw without a fee?
- What are the withdrawal charges?
- What is the current fixed (guaranteed) interest rate?
- When is the interest rate subject to change?
- How has the market driven funds performed in the last 3, 5 or 10 years?
- Do I want to have to continue to watch the market and make independent investment decisions?
- What is the monthly benefit that I can receive inside or outside of the Fund?
- What are the tax ramifications of my decision?

The Indiana State Teachers' Retirement Fund staff is available from 7:30 a.m. until 5:00 p.m. (E.S.T.), Monday through Friday or toll free (888) 286-3544. They can provide you with estimates and answers to your questions. Also, information can be obtained 24 hours a day by accessing our website at www.in.gov/trf.

Contacting Your Fund

Direct Dial (317) 232-3860

Toll-Free (888) 286-3544

- Benefits Checks Deductions
- Benefit Check Health Insurance
- Counseling
- Death Reports
- Deductions
- Direct Deposits
- Lost Checks
- Service Credit
- Withdrawals

Other Services:

Investments..... (317) 232-3868

TDD/TTY..... (317) 233-3306

Director's Office... (317) 232-3869

FAX Number..... (317) 232-3882

Visit our site on the World Wide Web at:

www.in.gov/trf

You can send our office an electronic mail

message at: trf@state.in.us



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CHECK IT OUT!

A person might not think of the federal government's Department of Labor website when looking for a wonderful place to browse. However, there is a feast of information and interesting facts among its many pages. Not to be missed is the KIDS' PAGE and supporting teachers' guide. Go to the Department of Labor's Bureau of Labor Statistics site at www.bls.gov. Scroll to the bottom of the page to click on the kids' page.

This colorful and interesting site matches a student's educational strengths with possible careers. Detailed career information tells the student what a typical day may be like, the pros and cons of the position, salary levels and what steps must be taken on the path to success in the chosen field.

Sally likes to read? Perhaps she should look into being a journalist or writer. Johnny wants to be a rock star? Believe or not, this site has the career information he needs.

The Primer is published by the Fund to update members on Fund news and to give general information about Fund benefits. Specific information is available in the Active Member's Handbook, the Retiring Member's Guidebook or by contacting the office.

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Newsletter Designer: Amy Maynard

Newsletter Printer: Personix -Another Fiserv Resource